# PHILADELPHIA HEALTH & EDUCATION CORPORATION – DREXEL UNIVERSITY COLLEGE OF MEDICINE AND SUBSIDIARY

FINANCIAL REPORT
June 30, 2009

Drexel

DREXEL UNIVERSITY
COLLEGE OF MEDICINE

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103-3984
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Philadelphia Health & Education Corporation
Philadelphia, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Philadelphia Health & Education Corporation, doing business as Drexel University College of Medicine, and its subsidiary (the "College") as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the College at June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 17, 2009

# PHILADELPHIA HEALTH & EDUCATION CORPORATION - DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY

**CONSOLIDATED STATEMENTS of FINANCIAL POSITION**
**as of JUNE 30, 2009 and 2008 (in thousands)**

| ASSETS | 2009 | 2008 |
|---|---|---|
| Cash and cash equivalents: | | |
| Operating cash | $ 7,195 | $ 10,411 |
| Risk Retention Group cash | 4,398 | 3,354 |
| Accounts receivable, net: | | |
| Patients | 6,081 | 6,194 |
| Grants, contracts and other | 10,391 | 10,840 |
| Drexel University, tuition and other | 9,252 | 1,665 |
| Tenet HealthSystem | 1,530 | 801 |
| Total accounts receivable, net | 27,254 | 19,500 |
| Contributions receivable, net | 704 | 1,107 |
| Other assets | 7,207 | 6,355 |
| Deposits with bond trustees | 9,752 | 12,972 |
| Beneficial interests in trusts | 15,585 | 20,390 |
| Investments | 129,062 | 173,832 |
| Student loans receivable, net | 17,384 | 16,646 |
| Buildings, property and equipment, net | 49,817 | 49,919 |
| **Total assets** | **$ 268,358** | **$ 314,486** |
| **LIABILITIES** | | |
| Accounts payable | $ 11,749 | $ 10,565 |
| Accrued expenses | 36,504 | 36,762 |
| Note payable to Drexel University | | 1,250 |
| Deposits and deferred revenue | 14,525 | 8,890 |
| Capital leases, affiliate | 2,999 | 3,157 |
| Government advances for student loans | 12,892 | 12,765 |
| Bonds payable | 22,817 | 22,847 |
| **Total liabilities** | **101,486** | **96,236** |
| **NET ASSETS** | | |
| Unrestricted | 11,850 | 32,233 |
| Temporarily restricted | 50,097 | 79,006 |
| Permanently restricted | 104,925 | 107,011 |
| **Total net assets** | **166,872** | **218,250** |
| **Total liabilities and net assets** | **$ 268,358** | **$ 314,486** |

See notes to consolidated financial statements.

# PHILADELPHIA HEALTH & EDUCATION CORPORATION - DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY

**CONSOLIDATED STATEMENT of ACTIVITIES for the year ended JUNE 30, 2009 (in thousands)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **OPERATING REVENUE** | | | | |
| Patient care activities | $ 86,543 | | | $ 86,543 |
| Affiliate tuition and fees (net of discounts of $4,045) | 55,322 | | | 55,322 |
| Government grants and contracts | 20,854 | | | 20,854 |
| Private grants and contracts | 3,717 | | | 3,717 |
| State appropriations | 10,123 | | | 10,123 |
| Contributions | 5,374 | $ 4,080 | | 9,454 |
| Endowment payout under spending formula | 761 | 6,460 | $ 58 | 7,279 |
| Investment income, net | 1,923 | 108 | | 2,031 |
| Other revenue | 7,907 | | | 7,907 |
| Net assets released from restrictions | 10,584 | (10,432) | (152) | |
| **Total operating revenue** | **203,108** | **216** | **(94)** | **203,230** |
| **OPERATING EXPENSE** | | | | |
| Patient care activities | 104,499 | | | 104,499 |
| Educational and general: | | | | |
| Instruction | 15,367 | | | 15,367 |
| Research and public service | 21,387 | | | 21,387 |
| Academic support | 9,618 | | | 9,618 |
| Student services | 2,025 | | | 2,025 |
| Institutional support | 24,337 | | | 24,337 |
| Scholarships and fellowships | 5,173 | | | 5,173 |
| **Total educational and general** | **77,907** | | | **77,907** |
| Depreciation and amortization | 6,658 | | | 6,658 |
| Operation and maintenance | 15,480 | | | 15,480 |
| Interest | 1,057 | | | 1,057 |
| **Total operating expense** | **205,601** | | | **205,601** |
| **Change in net assets from operating activities** | **(2,493)** | **216** | **(94)** | **(2,371)** |
| **NON-OPERATING ACTIVITY** | | | | |
| Contributions | | | 3,043 | 3,043 |
| Realized/unrealized loss on investments, including endowment payout | (17,839) | (29,125) | (5,035) | (51,999) |
| Other non-operating expense | (51) | | | (51) |
| **Change in net assets from non-operating activities** | **(17,890)** | **(29,125)** | **(1,992)** | **(49,007)** |
| **Change in net assets** | **(20,383)** | **(28,909)** | **(2,086)** | **(51,378)** |
| **Net assets at beginning of year** | **32,233** | **79,006** | **107,011** | **218,250** |
| **Net assets at end of year** | **$ 11,850** | **$ 50,097** | **$ 104,925** | **$ 166,872** |

See notes to consolidated financial statements.

# PHILADELPHIA HEALTH & EDUCATION CORPORATION - DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY

**CONSOLIDATED STATEMENT of ACTIVITIES for the year ended JUNE 30, 2008 (in thousands)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **OPERATING REVENUE** | | | | |
| Patient care activities | $ 83,415 | | | $ 83,415 |
| Affiliate tuition and fees (net of discounts of $4,124) | 53,628 | | | 53,628 |
| Government grants and contracts | 24,902 | | | 24,902 |
| Private grants and contracts | 3,973 | | | 3,973 |
| State appropriations | 10,077 | | | 10,077 |
| Contributions | 5,522 | $ 11,321 | | 16,843 |
| Endowment payout under spending formula | 728 | 6,131 | $ 56 | 6,915 |
| Investment income, net | 2,312 | 2,049 | | 4,361 |
| Other revenue | 7,975 | | | 7,975 |
| Net assets released from restrictions | 12,411 | (12,411) | | |
| **Total operating revenue** | **204,943** | **7,090** | **56** | **212,089** |
| **OPERATING EXPENSE** | | | | |
| Patient care activities | 97,141 | | | 97,141 |
| Educational and general: | | | | |
| Instruction | 19,427 | | | 19,427 |
| Research and public service | 23,990 | | | 23,990 |
| Academic support | 9,789 | | | 9,789 |
| Student services | 1,936 | | | 1,936 |
| Institutional support | 25,600 | | | 25,600 |
| Scholarships and fellowships | 4,976 | | | 4,976 |
| **Total educational and general** | **85,718** | | | **85,718** |
| Depreciation and amortization | 6,352 | | | 6,352 |
| Operation and maintenance | 12,947 | | | 12,947 |
| Interest | 1,177 | | | 1,177 |
| **Total operating expense** | **203,335** | | | **203,335** |
| **Change in net assets from operating activities** | **1,608** | **7,090** | **56** | **8,754** |
| **NON-OPERATING ACTIVITY** | | | | |
| Contributions | | | 1,444 | 1,444 |
| Realized/unrealized loss on investments, including endowment payout | (3,420) | (27,560) | (2,239) | (33,219) |
| Other non-operating expense | (46) | | | (46) |
| **Change in net assets from non-operating activities** | **(3,466)** | **(27,560)** | **(795)** | **(31,821)** |
| **Change in net assets** | **(1,858)** | **(20,470)** | **(739)** | **(23,067)** |
| **Net assets at beginning of year** | **34,091** | **99,476** | **107,750** | **241,317** |
| **Net assets at end of year** | **$ 32,233** | **$ 79,006** | **$ 107,011** | **$ 218,250** |

See notes to consolidated financial statements.

# PHILADELPHIA HEALTH & EDUCATION CORPORATION - DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY

**CONSOLIDATED STATEMENTS of CASH FLOWS**
**for the years ended JUNE 30, 2009 and 2008 (in thousands)**

| | 2009 | 2008 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Decrease in net assets | $ (51,378) | $ (23,067) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 6,500 | 6,194 |
| Disposals of property and equipment | 2 | 35 |
| Contributions for long-term investment | (3,043) | (1,444) |
| Actuarial change on annuity liabilities | (244) | (406) |
| Realized/unrealized loss on investments | 51,999 | 33,219 |
| Changes in operating assets and liabilities: | | |
| Accounts and contributions receivable | (7,351) | 356 |
| Other assets | (852) | (678) |
| Accounts payable and accrued expenses | 1,672 | 7,065 |
| Deposits and deferred revenue | 5,635 | (2,949) |
| **Net cash provided by operating activities** | **2,940** | **18,325** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchase of investments | (228,123) | (152,135) |
| Proceeds from sales and maturities of investments | 225,699 | 148,520 |
| Proceeds from student loan collections | 1,450 | 1,262 |
| Student loans issued | (2,188) | (2,841) |
| Purchase of property and equipment | (6,901) | (8,388) |
| Deposits placed with bond trustees | | (21,985) |
| Use of deposits with bond trustees | 3,220 | 8,990 |
| **Net cash used in investing activities** | **(6,843)** | **(26,577)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Contributions restricted for endowments | 3,043 | 1,444 |
| Payments on annuity obligations | (159) | (188) |
| Government advances (refunds) for student loans | 127 | (77) |
| Proceeds from short-term borrowings | | 1,250 |
| Proceeds from long-term borrowings | | 22,870 |
| Repayment of short-term debt | (1,250) | (5,000) |
| Repayment of long-term debt | (30) | (6,341) |
| **Net cash provided by financing activities** | **1,731** | **13,958** |
| **Net (decrease) increase in cash and cash equivalents** | **(2,172)** | **5,706** |
| **Cash and cash equivalents at beginning of period** | **13,765** | **8,059** |
| **Cash and cash equivalents at end of period** | **$ 11,593** | **$ 13,765** |
| **SUPPLEMENTAL INFORMATION:** | | |
| Cash paid for interest | $ 1,058 | $ 1,051 |
| Amortization of capital lease | $ 158 | $ 158 |

See notes to consolidated financial statements.

## 1. Organization and Summary of Significant Accounting Policies

**Organization:**

The Philadelphia Health & Education Corporation, doing business as Drexel University College of Medicine (the "College or Corporation"), is a research university concentrating in medical and related education located in Philadelphia, Pennsylvania. On July 1, 2002, the Corporation became a non-profit affiliate of Drexel University ("Drexel"), a Philadelphia non-profit corporation. The Corporation is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code.

***Schuylkill Crossing Reciprocal Risk Retention Group*** - The Schuylkill Crossing Reciprocal Risk Retention Group (the "RRRG"), a majority-owned subsidiary of the College, operates to provide primary coverage for claims-made medical professional liability insurance for health care professionals employed by the College. Ownership of the RRRG is split 87%/13% between the College and Drexel.

At June 30, 2009, the assets and ownership equity of the RRRG amounted to $38,683,000 and $3,052,000 respectively; and the College's proportional interest in the RRRG's revenues and expenses were $891,000 and $2,091,000, respectively. At June 30, 2008, the assets and ownership equity of the RRRG amounted to $31,205,000 and $2,747,000, respectively; and the College's proportional interest in its revenues and expenses were $916,000 and $903,000, respectively. The balances and activities of the RRRG are included in the accompanying consolidated financial statements. The minority interest in the equity of the RRRG of $1,360,000 and $1,321,000 at June 30, 2009 and 2008, respectively, is included in accrued expenses.

***Affiliations and Agreements*** - The College is party to an Academic Affiliation Agreement with Tenet HealthSystem Philadelphia, Inc. ("Tenet") intended to establish a relationship to foster continued coordination and integration between the College and Tenet hospitals. This agreement, dated November 10, 1998 and subsequently amended on April 25, 2002, is effective until June 30, 2022 and may be renewed thereafter for separate and successive five-year terms. Under the terms of the agreement, the College commits to furnish administrative, supervisory, and teaching services to Tenet at budgeted levels through June 30, 2022 (see Note 12).

The College is party to an agreement to provide teaching and administrative services to Drexel for the education of Drexel's medical students. The agreement, which automatically renews annually, is effective until June 30, 2010. In addition, the College has engaged Drexel to provide service and personnel for its administrative and academic operations (see Note 12).

**Significant Accounting Policies:**

*Basis of Accounting* – The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Under these principles, contributions or unconditional promises to give are recognized as revenues in the period received at their net present value, less an allowance for uncollectible pledges. Net assets, revenues, gains, expenses and losses are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows.

*Permanently Restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, donors of these assets permit the use of all or part of the income earned on these assets.

*Temporarily Restricted* – Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the College in accordance with those stipulations or by the passage of time. Contributions and income from endowments for which restrictions have been met in the same fiscal year as their receipt are combined and reported with unrestricted revenues. The College classifies gifts to acquire long-lived assets as temporarily restricted net assets. The release of restriction occurs when the asset is placed in service.

*Unrestricted* – Net assets not subject to donor-imposed restrictions. These net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Expenses are shown as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use.

*Patient Care Activities* – Faculty physicians participate in several physician practice plans that are managed by the College. Revenue and expenses related to these practice plans are recorded by the College as patient care activities.

Patient care activities represent amounts received and the estimated net realizable amounts due from patients and third-party payors for services rendered. The College provides care to patients under various reimbursement arrangements, including Medicare and Medicaid. These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement. In 2009 and 2008, revenue from Medicare and Medicaid programs combined and from managed care payors accounted for 18% and 54%, respectively, and 18% and 53%, respectively, of the College's gross patient service revenue.

*Cash and Cash Equivalents* – These are bank deposits and other investments with original maturities of 90 days or less.

***Beneficial Interests in Trusts*** – These are funds over which the College has neither possession nor control, but is a beneficiary of their income and are therefore recorded at the present value of expected future cash flows. See Note 2 for the fair value of beneficial interests in trusts.

***Fair Value of Financial Instruments*** – A reasonable estimate of the fair value of student loans receivable under government loan programs and refundable federal student loans could not be made because the loans are not readily saleable. These loans are recorded at cost, less an allowance for doubtful accounts. See Notes 2, 4 and 8 for additional fair value disclosures.

***Non-operating Activities*** – Non-operating activities include permanently restricted contributions, loss on the disposal of equipment, loss on investments in excess of the endowment spending rule and claims associated with the Allegheny Health, Education and Research Foundation.

***Use of Estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Reclassifications*** – Certain scholarships and information technology expenses in the 2008 consolidated statement of activities have been reclassified from instruction and institutional support to scholarships and patient care activities to conform to the 2009 classifications and comply with regulatory filing requirements.

***Adoption of New Accounting Pronouncements*** – In February 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* which permits organizations to measure certain financial instruments and certain other items at fair value. SFAS No. 159 was effective for the College on July 1, 2008. The College has adopted the fair value option for contributions receivable under the provisions of SFAS No. 159. See Note 2 for the fair value of investments.

In March 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"*. SFAS No. 161 requires organizations with derivative instruments to disclose how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for under SFAS No. 133 *"Accounting for Derivative Instruments and Hedging Activities,"* and how derivative instruments and related hedged items affect an organization's financial statements. SFAS No. 161 is effective for financial statements issued for the College as of June 30, 2010. The College does not anticipate that the adoption of this statement will have a material impact on its consolidated financial statements.

## 2. Investments

Effective July 1, 2008, the College implemented SFAS No. 157, *Fair Value Measurements* that defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 clarifies that fair value should be based on assumptions about risk, risks inherent in valuation techniques and the inputs to valuations. SFAS No. 157 also requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). The College applies fair value measurements to contributions receivable, beneficial interests in trusts, endowment investments and self-insurance escrow funds.

In accordance with SFAS No. 157, the College maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively-quoted market prices, if available. In the absence of actively-quoted market prices, price information from external sources, including broker quotes, and industry publications is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases, prices are estimated based on available historical financial data or comparable investment vehicles that reflect widely accepted market valuation practices.

SFAS No. 157 requires fair value measurements to be disclosed by level within the fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In those cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset. Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs, considered to be unobservable, are used in their valuations. The change in net assets in the Level 3 category is a required disclosure and is shown below. The fair value hierarchy and inputs to valuation techniques are as follows:

*Level 1* - Quoted prices (unadjusted) in active markets for identical assets and liabilities at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly-traded range of equity and debt securities.

*Level 2* - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 primarily include non-exchange-traded fixed income securities, structured products and certain bond investments.

*Level 3* - Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist of partnership investments in hedge funds and alternative and private equities.

As of June 30, 2009, the investments measured at fair value for each hierarchy level are as follows:

| | | Fair Value Measurements (in thousands) Using | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investments at Fair Value:** | | | | |
| Beneficial interests in trusts | $ 15,585 | $ 15,585 | | |
| Investments held in endowment | 108,108 | 90,262 | $ 1,758 | $ 16,088 |
| Self-insurance escrow funds (Note 10) | 6,954 | 6,954 | | |
| | 130,647 | $ 112,801 | $ 1,758 | $ 16,088 |
| **Investments at Cost:** | | | | |
| RRRG guaranteed investment contract (Note 10) | 14,000 | | | |
| **Total investments** | **$ 144,647** | | | |

The net change in the assets included in the Level 3 fair value category using significant unobservable inputs for the year ended June 30, 2009 is as follows:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |
|---|---|
| | Investments Held in Endowment |
| **Balance at June 30, 2008** | **$ 11,354** |
| Total losses (realized/unrealized) included in changes in net assets | (2,839) |
| Purchases | 7,573 |
| **Balance at June 30, 2009** | **$ 16,088** |
| The amount of total losses for the period included in changes in net assets that are attributable to the change in unrealized losses relating to assets still held at the reporting date | **$ (2,783)** |

*Endowment* - Effective June 30, 2009, the College adopted FASB Staff Position ("FSP") No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds.* This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization whether or not it is subject to an enacted version of the UPMIFA for the purpose of improving disclosures about both donor-restricted and board-designated endowment funds. The Commonwealth of Pennsylvania has not enacted UPMIFA as of the date of this report.

*Funds with Deficiencies* - From time to time due to unfavorable market fluctuations, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund, while other assets are unaffected to the same extent and maintain or exceed the level required. In accordance with generally accepted accounting principles, the aggregate amount of deficiencies at June 30, 2009 was $12,411,000, reported in unrestricted net assets on the consolidated statement of activities. Subsequent investment gains will be used to restore the balances to the fair market value of the original amount of the gift. Subsequent gains above that amount will be recorded as temporarily restricted net assets. Aggregate deficiencies as of June 30, 2008 amounted to $176,000.

*Interpretation of Relevant Law* - The Board of Trustees of the College has interpreted Pennsylvania Act 141 (PA Act 141) as requiring the preservation of the fair value of the original gift as specified in the individual trust instruments. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by PA Act 141.

Endowment net asset composition by type of fund as of June 30, 2009 and 2008 is as follows:

| | (in thousands) | | | |
|---|---|---|---|---|
| **2009** | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Donor-restricted endowment funds | $ (12,411) | $ 10,938 | $ 85,446 | $ 83,973 |
| Board-designated endowment funds | 5,091 | 16,083 | | 21,174 |
| **Total Net Assets** | **$ (7,320)** | **$ 27,021** | **$ 85,446** | **$ 105,147** |
| **2008** | | | | |
| Donor-restricted endowment funds | $ 6 | $ 40,063 | $ 82,880 | $ 122,949 |
| Board-designated endowment funds | 9,167 | 15,223 | | 24,390 |
| **Total Net Assets** | **$ 9,173** | **$ 55,286** | **$ 82,880** | **$ 147,339** |

Board-designated temporarily restricted endowment funds represent donor-restricted funds which the Board has earmarked for endowment purposes. The earnings on these funds are utilized by the College in a manner consistent with specific donor restrictions on the original contributions.

Changes in endowment net assets for the years ended June 30, 2009 and 2008 are as follows:

| | (in thousands) | | | |
|---|---|---|---|---|
| **2009** | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Endowment net assets, beginning of year** | $ 9,173 | $ 55,286 | $ 82,880 | $ 147,339 |
| Investment return: | | | | |
| Investment income, net of fees | 128 | 1,332 | | 1,460 |
| Net realized loss | (988) | (10,246) | (404) | (11,638) |
| Net unrealized loss | (2,457) | (26,082) | (114) | (28,653) |
| Reclassification for funds with deficiencies | (12,411) | 12,411 | | - |
| Total investment return | (15,728) | (22,585) | (518) | (38,831) |
| Contributions | | 1,003 | 3,043 | 4,046 |
| Use of endowment assets: | | | | |
| Annual transfer for operations | (761) | (6,518) | | (7,279) |
| Other transfers | (4) | (165) | 41 | (128) |
| Total uses | (765) | (6,683) | 41 | (7,407) |
| **Endowment net assets, end of year** | $ (7,320) | $ 27,021 | $ 85,446 | $ 105,147 |
| **2008** | | | | |
| **Endowment net assets, beginning of year** | $ 11,948 | $ 82,581 | $ 81,692 | $ 176,221 |
| Investment return: | | | | |
| Investment income, net of fees | 179 | 1,841 | | 2,020 |
| Net realized gain (loss) | (235) | (2,452) | 162 | (2,525) |
| Net unrealized loss | (1,986) | (20,760) | (396) | (23,142) |
| Total investment return | (2,042) | (21,371) | (234) | (23,647) |
| Contributions | | 839 | 1,444 | 2,283 |
| Use of endowment assets: | | | | |
| Annual transfer for operations | (728) | (6,187) | | (6,915) |
| Other transfers | (5) | (576) | (22) | (603) |
| Total uses | (733) | (6,763) | (22) | (7,518) |
| **Endowment net assets, end of year** | $ 9,173 | $ 55,286 | $ 82,880 | $ 147,339 |

For 2009, investment income, net realized losses and net unrealized losses on unendowed investments amounted to $1,978,000, $1,590,000, and $4,246,000, respectively. For 2008, investment income, net realized gains and net unrealized losses on unendowed investments amounted to $4,353,000, $915,000 and $3,565,000, respectively.

*Investment Policies* - The College has an investment policy for endowment assets designed to maximize the total return on the assets invested within an acceptable level of risk consistent with long-term preservation of the real value of the funds. The goal is to manage the portfolio for risk as well as total return, consistent with fiduciary standards of the prudent investor rule.

To satisfy its long-term, rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Endowment assets are invested in several asset classes and subclasses thereof, to moderate the volatility of the returns of the total portfolio. The primary asset classes are stocks, bonds, cash and real estate.

For the years ended June 30, 2009 and 2008, the College had an endowment spending rule that limited the spending of endowment resources to 5% of the average market value of the pooled endowment portfolio for the prior three fiscal years. To the extent that current yield is inadequate to meet the spending rule, a portion of cumulative realized net gains is available for current use.

At June 30, 2009 and 2008, investments included the following:

| | (in thousands) | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Market | Cost | Market | Cost |
| Equity securities | $ 59,777 | $ 69,080 | $ 103,427 | $ 96,466 |
| Fixed income securities and bond funds | 28,604 | 31,226 | 42,421 | 43,190 |
| Real estate | 5,422 | 6,170 | 2,324 | 1,932 |
| Money market funds | 14,305 | 14,305 | 3,614 | 3,614 |
| **Total endowment investments** | **108,108** | **120,781** | **151,786** | **145,202** |
| Self-insurance escrow funds (Note 10) | 6,954 | 6,635 | 8,046 | 6,635 |
| RRRG guaranteed investment contract (Note 10) | 14,000 | 14,000 | 14,000 | 14,000 |
| **Total investments** | **$ 129,062** | **$ 141,416** | **$ 173,832** | **$ 165,837** |

## 3. Accounts and Loans Receivable

Accounts and loans receivable, net of allowances, as of June 30 are as follows:

| | (in thousands) | |
|---|---|---|
| | 2009 | 2008 |
| Accounts receivable | | |
| Patient, net of contractual allowances | $ 11,000 | $ 12,544 |
| Grants, contracts and other | 10,962 | 11,454 |
| Tenet HealthSystem | 1,530 | 801 |
| Drexel University tuition and other | 9,252 | 1,665 |
| | 32,744 | 26,464 |
| Less allowance for doubtful accounts | (5,490) | (6,964) |
| **Net accounts receivable** | **$ 27,254** | **$ 19,500** |
| Student loans receivable | $ 18,696 | $ 17,927 |
| Less allowance for doubtful accounts | (1,312) | (1,281) |
| **Net student loans receivable** | **$ 17,384** | **$ 16,646** |

## 4. Contributions Receivable

Net contributions receivable as of June 30 are as follows:

| | (in thousands) | |
|---|---|---|
| | 2009 | 2008 |
| Amounts due in: | | |
| Less than one year | $ 444 | $ 457 |
| One to five years | 208 | 677 |
| Greater than five years | 80 | 54 |
| Gross contributions receivable | 732 | 1,188 |
| Less discount to present value | (28) | (81) |
| **Total contributions receivable, net** | **$ 704** | **$ 1,107** |

The current yields for two-to ten year U.S. Treasury notes are used to discount contributions receivable, which averaged 2.292% and 3.375% for the fiscal years ended June 30, 2009 and 2008, respectively. The College considers these discount rates to be a Level 3 input in the context of the SFAS No. 157 hierarchy (see Note 2).

Outstanding conditional promises to give to the College totaled $2,499,000 and $2,750,000 at June 30, 2009 and 2008, respectively, which are dependent upon the fulfillment of certain conditions and, therefore, are not included in the consolidated financial statements.

The following table summarizes the change in net contributions receivable for the year ended June 30, 2009:

| | (in thousands) |
|---|---|
| **Balance, beginning of year** | **$ 1,107** |
| New pledges | 462 |
| Collections on pledges | (918) |
| Decrease in discount to present value | 53 |
| **Balance, end of year** | **$ 704** |

## 5. Retirement Plan

All eligible employees of the College are offered retirement plan benefits through an IRS Section 403 (b) savings plan. The plan is the Philadelphia Health & Education Corporation Defined Contribution Retirement Plan ("Retirement Plan") and is administered by Teachers Insurance Annuity Association, Fidelity Investments and the Vanguard Group.

For the years ended June 30, 2009 and 2008, the College contributed $7,734,000 and $6,915,000 respectively, to the Retirement Plan, reported as institutional support in the consolidated statements of activities.